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Housing: current issues

Background Paper

HOUSING: CURRENT ISSUES

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March 1990
Revised October 1993



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Available in Canada through
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Canada Communication Group -- Publishing
Ottawa, Canada K1A 0S9

Catalogue No. YM32-2/229-1993-10E
ISBN 0-660-15724-1

CE DOCUMENT EST AUSSI
PUBLIÉ EN FRANÇAIS

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HOUSING: CURRENT ISSUES

INTRODUCTION

There are almost 8.5 million dwellings in Canada, over 60% of which are owner-occupied. Annual construction, in the neighbourhood of 200,000 units, represents just over 2% of the housing stock. While housing is, in almost all cases, provided by the private sector, government at all levels is actively involved through such policies as building codes and zoning, financial incentives, and direct participation and management. In addition, general federal policies such as monetary policy and income tax regulations have a significant impact on both the supply and demand sides of the housing market. Table 1 indicates that, relative to other OECD countries, Canada has currently a high level of involvement in subsidization along with low levels in credit control, public lending and construction.

The focus of policy-makers in the housing area has varied as much with the philosophy of the analyst as with the resources available. After World War II, the concern was with housing for returning soldiers. In 1946, the Central Mortgage and Housing Corporation (CMHC, now called the Canada Mortgage and Housing Corporation) was established to administer the *National Housing Act* of 1944. CMHC made loans for housing and became involved in the construction of public housing.

By the mid-1950s, CMHC had replaced direct lending with the Mortgage Loan Insurance Program, which provided the foundation for a private mortgage market in Canada.

A major issue of the 1960s, a shortage of serviced land, was addressed through government loans to municipalities for the development of local infrastructures (the Municipal Infrastructure Program of 1960). In the same decade, the federal government also used the housing sector to fight seasonal employment with its Winter House Building Incentive Program. Finally, urban renewal was also the target of significant public resources.

Table 1

Levels of Government Involvement in the Housing Sector

	Credit Control	Public Lending	Subsidization	Construction
Australia	M	L	M	L
Canada	L	L	H	L
Finland	H	H	H	H
France	H	M	H	M
Germany	M	M	H	H
Greece	H	L	H	L
Japan	M	H	M	L
Luxembourg	H	L	L	L
Netherlands	M	H	H	H
New Zealand	L	L	L	L
Portugal	L	M	M	L
Spain	M	M	M	M
Sweden	H	H	H	M
Turkey	H	M	M	L
United Kingdom	M	H	H	H
United States	L	H	H	L

Key: H = High; M = Medium; L = Low

Source: OECD Group on Urban Housing Finance, Synthesis Report of National Position Papers (1988).

By the 1970s, the focus of attention had become the rising cost of housing in rapidly growing urban areas and the access of low-income groups to urban housing. This issue has remained at the forefront, joined today by a variety of other issues such as energy conservation, the needs of special groups, and homelessness.

The goals of federal policy have remained consistent over time - to establish a housing policy that will enable all Canadians to have decent, adequate and affordable shelter. The problem is that the terms "enable," "decent," "adequate" and "affordable" are all subject to a wide variety of interpretations.

This paper will outline current housing issues and policies in Canada and review possible new initiatives suggested by experiences in other countries and by various advocacy groups. "Current wisdom" about terms such as "affordability" and "accessibility" will be explored.

A SKETCH OF HOUSING IN CANADA

A. 1941-1981

Table 2 illustrates how much housing conditions changed between 1941 and 1981. In the post-1941 period, a postwar baby boom, high volumes of immigration, increased longevity, rising real incomes, individuals' desire for separate accommodation, and a remarkable shift of the population to urban areas, particularly in Central Canada and British Columbia, led to a dramatic increase in the quality and quantity of housing (both owner-occupied and rental), which was largely accommodated within private markets. A wide variety of government policies not explicitly linked to housing, such as income-maintenance programs for the elderly and the unemployed, enabled low-means households to devote more of their income to housing.

The housing policies of the federal government have also played a significant role in the evolution of the post-war housing situation. Two basic issues were addressed by policy: the perceived inefficiencies in the housing market that were preventing the private market from producing an "adequate" supply of housing and the demands of basic human rights, social justice and redistribution. To handle the former, the focus was put on mortgage funding. To handle the latter, policies were created to subsidize low-rental housing and low-income homeowners.

B. Reviews of Recent Housing Policy

In 1986, the government published a comprehensive review of ongoing housing programs. The Nielsen Task Force on Program Review: Housing looked at the efficiency of delivery of various programs, and at their beneficiaries, and identified gaps and omissions. It concluded that the focus of social housing programs was on the supply of new units rather than the use of the existing stock. However, inability to afford existing accommodation is the major

Table 2

Some Comparative Data on Housing Progress, Canada, 1941 and 1981

	Units	1941	1981
Total population	(000s)	11,490	24,203
In urban areas	(000s)	5,852	18,009
In collective dwellings	(000s)	368	406
Occupied private dwellings	(000s)	2,573	8,281
Rooms per dwelling	(rooms)	5.3	5.7
Persons per dwelling	(persons)	4.5	2.9
Persons per room	(persons)	0.8	0.5
Owner-occupied dwellings	(%)	57	62
In urban areas	(%)	40	56
Single detached dwellings	(%)	71	57
In urban areas	(%)	49	50
Dwellings			
In need of major repair	(%)	27	7
Using stove or space heater	(%)	61	7
Using coal, coke, or wood fuel	(%)	93	4
With refrigerator	(%)	21	98*
With piped running water	(%)	61	96*
With inside flush toilet	(%)	56	94*
With installed bath or shower	(%)	45	91*

Sources: 1941 and 1981 Censuses of Canada; data marked * are from the 1971 Census. Total population includes only persons living in private dwellings or collective dwellings.

problem facing low-income households. Further, the Task Force found the social housing program to be a costly form of assistance entailing long-term commitments and leaving little flexibility for new initiatives. In 1986/87, for example, expenditures on social housing were approximately \$1.3 billion, 95% of which resulted from activity in previous years. Even if all new social housing activity had been terminated on 1 January 1986, budgetary expenditures in 1986-87 would still have been around \$1.225 billion. It was concluded that the program did not target aid to those most in need. The Task Force recommended elimination of the Non-Profit and Co-operative Housing Program under section 56.1 of the *National Housing Act*, and its replacement with cost-effective alternatives including: increased use of rent supplements,

rehabilitation assistance to those most in need, and fully-targeted assistance in small-scale housing projects. The Task Force also recommended a continuing role for public mortgage loan insurance and a stronger federal role in housing research and quality.

In his budget of 20 February 1990, the Minister of Finance announced funding for new commitments of \$90 million in 1990-91 and \$86 million in 1991-92, 15% less than planned. The measures are part of the plan to control government expenses.

In a 1987 retrospective,⁽¹⁾ CMHC concluded that comprehensive national strategies are not always appropriate - policies and programs should be geared to specific local housing conditions, which are not uniform across the country. A second lesson drawn from the post-war experience is that policies designed to "solve" housing problems are very costly. For example, when an individual moves from shared family housing to a publicly subsidized unit, the government must then assume the cost of housing formerly paid by the family. Policies which encourage "independent" living may, then, put considerable pressure on the public purse.

With respect to housing adequacy, there are no objective answers - this is a normative issue and must be related to a specific set of goals. In 1985, CMHC concluded that 700,000 households faced problems with respect to their housing.⁽²⁾ These were households that could not afford accommodation that was physically adequate (with basic facilities) and uncrowded (with one person or less per room) without paying more than 30% of their income. Of these, 20% were in "substandard" housing (without basic facilities such as running water), 500,000 were renters, and of the 200,000 owners, 150,000 were in rural areas. By simply changing the definition of crowding, the threshold share of income devoted to housing, or the geographic boundary of the housing market, these numbers can be dramatically increased or decreased. For example, households with the same income level may be considered "in need" in Toronto, but as having no housing problem in Belleville.

Another normative issue is that of social mix -- income groups, age groups and so forth. Efforts at integration have proven divisive in some cases, expensive in others. The

(1) Canada Mortgage and Housing Corporation, *Housing in Canada 1945-1986: An Overview and Lessons Learned*, 1987.

(2) Government of Canada, *Consultation Paper on Housing*, 1985.

1987 CMHC study concluded: there is "surprisingly little evidence of the extent to which current social-mix policies actually result in such benefits" as improved social justice, compassion and so forth (p. 17). Finally, limited resources have led to a renewed emphasis on "targeting," or restricting subsidies to the needy; this may result in less social mixing as non-needy households no longer receive subsidies to be live in mixed developments.

HOUSING POLICY OUTSIDE CANADA

Recently, the United Nations (UN) the Organisation for Economic Co-operation and Development (OECD), the Congressional Budget Office in the United States and a United States national housing task force have published housing reports dealing with issues relevant to the Canadian context. In addition, the Bush Administration has presented a new housing initiative to Congress.

A. The UN Study⁽³⁾

The UN study noted that housing policies have come under growing scrutiny in all developed economies as governments seek more economy and better value for money spent. Allocative distortions were identified in housing markets and linked to various government policies. For example, relief for home owners is regressive and encourages over-consumption of housing by the wealthy. Rent controls have discouraged investors from participating in rental markets, discouraged mobility of households living in controlled units, and generally benefited those who are not so poor as to need housing subsidies. New investment in public housing has been sharply curtailed in most countries because of budgetary constraints and a growing disillusionment in some countries about its effectiveness in meeting the housing needs of low-income groups. Finally, rent supplements have grown increasingly popular because they are easier to direct and more cost-efficient than other programs.

(3) United Nations, Department of International Economic and Social Affairs, *Housing and Economic Adjustment*, 1988.

The study identified New Zealand as a country that undertook "what is probably the most far-reaching and comprehensive housing policy reform attempted anywhere in the developed market countries during the 1980s" (p. 49). Basically, housing reforms there have led to subsidies corresponding to need and programs that are tenure-neutral. Rent controls were abolished and relief for mortgage interest eliminated, while direct income-related subsidies were allocated to low-income owners and renters. These reforms, along with increased investment in public housing construction, low-interest loans to low-income purchasers of dwellings, and an average marginal tax rate of approximately 30% (the lowest of all developed market economy countries) have made affordability the focal point of New Zealand's housing policy.

B. The OECD Study⁽⁴⁾

The OECD study dealt with urban housing finance, focusing on policies towards owner occupiers, housing loan finance institutions and instruments, policies towards the rental sector and housing reinvestment strategies.

Owner occupation is viewed favourably in most countries, with some, the U.K. for example, actively encouraging its expansion, and others, Canada, for example, being more neutral in treatment of different tenure groups. A variety of policies are used that influence tenure choice, including: (i) low interest loans (Japan, Germany, New Zealand, Sweden); (ii) tax expenditures related to mortgage interest payments and imputed income (see Table 3 below), wealth and capital gains (tax-exempt in practically all countries), property taxes (with tax concessions frequently given), sales taxes (with exemptions of various magnitudes offered) and income from savings schemes (such as the now defunct Registered Home Ownership Savings Plan in Canada).

The study group, after examining the efficiency and equity implications of these policies, concluded that subsidies should be far more selective and carefully targeted. In many countries, the relatively affluent, long-standing owner occupiers are the main beneficiaries. A more cost-effective approach would be to target low-income households, first-time buyers, those

(4) Organisation for Economic Co-operation and Development, *Urban Housing Finance*, 1988.

with special needs and those upgrading substandard housing. It is important in all cases to be aware of two complicating factors: first, current income may not reflect life cycle ability to pay (that is, aid should be related to longer-term income) and second, income-related subsidies for housing must be coordinated with non-income related benefits to avoid creating a poverty trap (that is, incentives should not be set up to discourage people from giving up government support).

Table 3

The Income Tax Treatment of Owner-Occupied Housing

Group A	Group B	Group C
Finland Greece Luxembourg Netherlands Spain Sweden Denmark Norway	France Japan Portugal Turkey United Kingdom United States Federal Republic of Germany	Australia Canada New Zealand

Group A: Countries that tax imputed rental income and allow tax deductions on loan interest payments.

Group B: Countries that do not tax imputed rental income but allow tax deductions on loan interest payments or housing costs.

Group C: Countries that do not tax imputed rental income or allow tax deductions on loan interest payments.

Source: OECD Group on Urban Housing Finance, National Position Papers (1988).

With respect to housing loan finance, the market for mortgages has been subjected to severe strains over the past two decades, most notably from inflation and interest rate volatility. The market response has been to increase down payments, thus putting a heavy burden on first time buyers. In addition, lending institutions have adopted variable rate

mortgages, long-term loans on which the rate of interest changes during the term of the contract. This can lead to cash flow problems for the low-income household. These institutional developments, along with the rapid expansion of secondary mortgage markets (mortgage backed securities) in the U.S. and Canada, have made the housing market attractive to investors with funds to lend, but they also imply increasing house financing costs.

The rental sector is still an important sector in all OECD countries (in fact, it is larger than the owner occupier sector in France, Germany, the Netherlands, and Sweden). The OECD study group examines the claim that investment disincentives, misallocation of resources, inequity and excessive administrative cost are due to rent controls. The report emphasizes that rent control is not the cause of all these failings. It is one of several contributing factors: the growth of alternative investment opportunities for small scale savers who might formerly have invested in housing, the relatively unfavourable tax treatment of rental housing investment in some countries, and growth in the demand for owner occupation and social housing. What is recommended is gradual decontrol with a system of housing allowances. Finland, Sweden, Denmark, Germany and Norway offer allowances on the basis of household income and family size. In the U.S., reliance is being shifted to housing allowances or vouchers from other forms of housing subsidy.

The final issue addressed by the OECD report is housing reinvestment strategies. The existing stock must be maintained and/or upgraded, with expenditures directed at maintenance, renovation, rehabilitation, modernization and urban renewal. Such policies are often a cost-effective means of meeting the demand for good quality housing in areas of decay, where the cost of new building is prohibitive. Rent control is identified as a factor accelerating the rate of decay by reducing the rate of return available to the landlord. In many countries (Australia, Canada, Finland, France, Greece, Japan, Spain, Sweden and the U.S.) loans for housing rehabilitation are made at below market interest rates. In many cases, grants supplement the loan subsidies (France and the U.K., for example). Tax expenditures, for example some tax deductibility on reinvestment expenditures, are allowed in some countries. Where the problems of substandard housing are more extensive, some countries (e.g., Portugal and the Netherlands) acquire tracts of housing with a view to undertaking or organizing the

reinvestment itself. This is a relatively expensive approach however, similar to the now defunct urban renewal programs of the U.S. and Canada.

C. The Congressional Budget Office Study⁽⁵⁾

The Congressional Budget Office report documents the current targeting of U.S. federal rental assistance to very low-income renters. Two basic approaches are used: project-based aid, which can involve new construction or substantial rehabilitation and household-based subsidies, which provide renters with resources to choose rental units in the existing housing stock. Low- and moderate-income households also receive some aid to become homeowners through subsidies that reduce their effective mortgage interest rate to as low as 1%. Over the past decade, however, commitments for new homebuyers have generally decreased, as have production-oriented rental programs. The emphasis is increasingly on existing-housing and voucher programs. Further, Congress has steadily shifted funding away from new construction toward rehabilitation. At the beginning of 1977, 34% of all assisted households received homeownership aid; in 1988, less than 20% did so. With respect to rental assistance, 13% of renters received aid for existing housing in 1977; by 1988, this had increased to 34%. Further, over the same period, the proportion of renters receiving household-based subsidies increased from 8% to 22%.

D. The National Housing Task Force (United States)⁽⁶⁾

The task force, after an intensive study of conditions and policies in the United States, presented a plan to provide "decent, affordable housing" for every American by the end of the century. The core of the ten-point plan is a system to stimulate local production, renovation and conservation of affordable housing through the co-operative efforts of federal, state and local governments. A housing opportunity program funded by a federal block grant,

(5) United States, Congressional Budget Office, *Current Housing Problems and Possible Federal Responses*, 1988.

(6) United States, Task Force, *A Decent Place to Live: The Report of the National Housing Task Force*, 1988.

partly matched by state and local funds, would finance the construction, renovation or acquisition of as many as 200,000 additional buildings a year for low-income households. The emphasis is on the existing stock. Further, the federal government was called upon as well to provide "adequate" rental assistance to those unable to undertake home ownership. The report was much more a statement of principles than a set of concrete proposals.

E. Bush Administration's Housing Proposal⁽⁷⁾

The Bush administration's housing initiative (the HOPE bill - Home Ownership and Opportunity for People Everywhere) consists of four parts:

- (i) grants to help public housing tenants to purchase their apartments; grants to other low-income people or non-profit groups to encourage home ownership;
- (ii) protection of low-income tenants from sudden rent increases in federally subsidized housing units covered by the congressionally imposed moratorium on mortgage prepayments that expires on September 30, 1990;
- (iii) rental assistance and support services to homeless people who are seriously mentally ill or have alcohol and drug problems; a demonstration program to investigate the effectiveness of combining housing vouchers with support services to help the elderly continue to live independently; and
- (iv) designation, by the Secretary of Housing and Urban Development (HUD), of 50 Housing Opportunity Zones in which regulatory reform to spur construction of affordable housing would be encouraged (by revision of outdated building codes, for example).

If purchasers of units covered by this bill decide to sell, the legislation would require them to sell the unit back to the tenant organization overseeing the project for an amount equal to the initial down payment plus the cost of improvements and inflation. This would allow the units to be sold to another low-income person.

This legislation will undoubtedly be subjected to intense debate and change as it makes its way through Congress. A variety of objections have been raised to the bill in its

(7) "Kemp Outlines HOPE Proposal to Skeptical House Panel," *Congressional Quarterly*, 17 March 1990, p. 839.

current form: inadequate support for low-income renters, unfair resale restrictions, inadequate funding.

From a conceptual perspective, there is limited theoretical and empirical evidence that home-ownership by low-income households is viable over the long-run without public assistance.

SPECIFIC ISSUES

To this point, discussion has been directed at general housing policies for aid to homeowners and aid for low-income households. There are in addition a variety of more specific issues that arise from time to time, two of which, housing for the elderly and homelessness, will now be addressed because of ongoing public debate.

A. The Elderly

Aging is not a new phenomenon. Public focus on aging is, however, a relatively recent concern. Society has always had to make provision for old age, but until the 1950s (and the introduction of the *Old Age Security Act* and *Old Age Assistance Act*), this was primarily a private responsibility in Canada. People aged 65 currently represent just over one in ten Canadians today; by 2030, this is expected to rise to one in five. Pressure will grow to expand services available - including housing.

Among Canada's "older elderly" population (those 75 and over), Statistics Canada has identified a major change in living arrangements.⁽⁸⁾ Since 1971, the number of "older elderly" men and women living alone or in institutions providing some level of custody or care has increased most rapidly. The proportion of men living alone increased from 13% in 1971 to 17% in 1986, while the proportion of such women increased from 26% to 38% over the same period. The proportion of men living in institutions has increased from 9% to 12% since 1971; the proportion of women, from 14% to 19%. By 2001, it is projected that 35% of people

(8) Gordon Priest, "Living Arrangements of Canada's Older Elderly Population," *Canadian Social Trends*, Statistics Canada, Autumn 1988, p. 26-31.

aged 75 and over will be living alone. This trend has implications for services to this population including home care, security, transportation and social support, if independence is to be preserved. Table 4 indicates the relatively high proportion of income accounted for by housing expenses for the older elderly.

Table 4

Shelter Costs as a Percentage of Household Income
of Older Elderly Renters and Homeowners
(1986 Spending Out of 1985 Income)

	Number of persons per 100 population paying at least 30% of income on shelter		Number of persons per 100 population paying at least 50% of income on shelter	
	Renters	Owners	Renters	Owners
Women living alone	52	21	20	5
Men living alone	46	15	15	4
Couples (no other household members)	33	4	6	1

Source: Statistics Canada, 1986 Census.

To some extent these figures overstate the financial burden, since they ignore financial holdings and other accumulated assets. Generally those over 65 have greater assets of this type than younger people. Of families headed by someone aged 65 or over, 80% own their own homes, compared with 71% of all families. Further, 91% of elderly families owning homes do not have a mortgage, compared with just 48% of all home-owning families.

CMHC is currently involved in research designed to improve seniors' access to "appropriate and affordable" housing. "Appropriate" refers to health service and social needs, while "affordable" means that many elderly will be able to satisfy their accommodation needs without requiring subsidies. With two-thirds of seniors aged over 65 still living in homes they

own, a variety of approaches have been suggested to tap their home equity, including: reverse mortgages, sale leasebacks and deferred payment loans. In fact, on 8 March 1990, Security Life Insurance Co. Ltd. of Toronto announced the Security Life Home Equity Plan that lets seniors use their homes as collateral to borrow money in either a lump sum or a monthly plan, while they continue to live in the home. Interest payments accumulate until the senior dies or the property is sold. The homeowner owns any growth or equity and the company guarantees a certain amount of equity to the plan owner's estate. Finally, only proceeds from the home can be used to satisfy the outstanding mortgage. Security Life absorbs the loss if the home value is insufficient. Revenue Canada is to rule on whether the loan payments are tax free; its ruling on a similar plan in British Columbia was favourable.

New types of tenure arrangements, such as life tenancies and shared-equity leases, are designed to reduce the initial capital needed for access to a new dwelling. For those without assets, the problems of the poor elderly are quite similar to those of low-income households in general, and similar policies will often be appropriate. In addition, a variety of other options have been suggested, including: home-sharing, self-contained accessory apartments, garden suites ("granny flats"), retirement villages and life care facilities.

The fundamental questions with respect to housing for the elderly are the same as those for housing low-income households. Is housing or low income the real problem? If the government decides housing aid is appropriate, what form should aid take and what are the resource constraints?

B. The Homeless

During its thirty-sixth session (1981), the General Assembly of the United Nations decided to designate 1987 as the International Year of Shelter for the Homeless in order to focus attention on shelter for the poor throughout the world. Between 1981 and 1987, a number of studies were carried out in Canada, the U.S. and most other countries to consolidate and share all new and existing knowledge relevant to shelter problems. Two fundamental questions must be asked with respect to the homeless in Canada:

- Who are they?
- Why are they homeless?

Unfortunately, these questions are not easily answered. As there are no unambiguous definitions of what we mean by "the homeless," it is difficult to come up with generally accepted estimates of their numbers and causes of their situation. An Ontario Ministry of Housing study,⁽⁹⁾ for example, defines the homeless as those who are living on the street and those who cannot find both adequate and affordable permanent accommodation. Clearly by varying the definitions of "adequate," "affordable" and "permanent"-a wide variety of numbers can be generated.

On 22 January 1987, the Canadian Council on Social Development (CCSD) conducted an informal survey of 1,000 agencies (hostels, transition facilities and so forth) providing services to people in need of temporary shelter.⁽¹⁰⁾ Table 5 presents data for the 7,751 people who stayed in the 283 shelters that provided data for the survey.

Table 5

Personal Situations of People who Sought Shelter
on 22 January 1987

Situation	People	Per Cent of Sample
Unemployed	4,239	54.7
Current or ex-psychiatric patients	1,556	20.1
Receiving social assistance	3,995	51.5
Evicted	726	9.4
Alcohol abuser	2,580	33.3
Drug abuser	1,163	15.0
Physically handicapped	237	3.1

Source: Mary Ann McLaughlin, *Homelessness in Canada*, Canadian Council on Social Development, 1988, p. 5.

(9) Government of Ontario, Ministry of Housing, *More than Just a Roof*, 1988.

(10) Mary Ann McLaughlin, *Homelessness in Canada*, Canadian Council on Social Development, 1988.

Based on this survey, the CCSD estimates that there were between 130,000 and 250,000 homeless people in 1986. This is roughly the same number as that estimated by some for total homeless in the United States, a country with 10 times the population of Canada. (See Appendix II for more details on the CCSD approach.) The characteristics of those in temporary shelter are quite varied - implying that one policy for the homeless will not address all their problems. In fact, it is not clear that housing is the issue that needs addressing. Similar conclusions have been drawn in the U.S.

As in Canada, homelessness has been receiving increasing attention in the United States. A recent General Accounting Office study⁽¹¹⁾ identified a variety of factors as contributing to the problem: alcohol and drug abuse, increased unemployment in the late 1970s and early 1980s, inadequate community resources for the mentally ill, increases in personal crises, cuts in public assistance, and a decline in the number of low-income housing units. Aside from the characteristics of the homeless, there is very little agreement among social scientists concerning the relationship between homelessness and housing markets (that is, whether rent control or low vacancy rates or various housing policies contribute to homelessness), about the magnitude of the problem, or about whether things are getting worse.⁽¹²⁾ What about the magnitude of the problem? As in Canada, it is very difficult to come up with soundly-based estimates. The U.S. Department of Housing and Urban Development (HUD) suggests there are 250,000 to 300,000 homeless Americans; Peter Rossi, author of a recently published study of homelessness, estimates 250,000 to 350,000;⁽¹³⁾ the Urban Institute, close to 600,000; advisory groups such as the National Coalition for the Homeless, about 3 million. The HUD and Urban Institute estimates are based on surveys of shelters and soup kitchens; the estimates of Rossi and the advocacy groups are based on attempts

(11) United States, General Accounting Office, *Homelessness: A Complex Problem and the Federal Response*, 1985.

(12) See Randall Filer, "What We Really Know about the Homeless," *Wall Street Journal*, 10 April 1990, p. A24, and Michael H. Lang, *Homelessness Amid Affluence*, Praeger, 1989, for diametrically opposing views of the issue.

(13) Peter Rossi, *Down and Out in America: The Origins of Homelessness*, University of Chicago Press, 1989.

to include people who do not use shelters. In order to try to resolve these discrepancies, from 6 p.m., 20 March 1990, to 4 a.m. the following morning the U.S. Census Bureau took a head count of people in streets, alleys, doorways and shelters. As a result of this operation, 230,000 homeless people were counted, almost 179,000 in shelters and 50,000 on the street. These numbers have generated considerable controversy and to date there have been no studies of their accuracy.

The federal policy response to homelessness in the U.S. has been primarily to supplement the more substantial state, local, and private efforts. Most studies reviewed by the General Accounting Office recommended that longer-term strategies should focus on community-based services. These solutions are likely to be expensive, however, and the effectiveness of existing programs remains to be demonstrated.

C. Affordability

Affordability of housing, for the elderly, for low-income households, for newly-formed households and so forth, is the common thread running through all discussions of housing policy. In Appendix III, selected data are presented on housing prices over the past two decades. In 1971, in current dollars, the median value of new NHA-housing was roughly twice the median level of urban family income; in 1989, it was about the same. What had changed dramatically were mortgage interest rates. In 1989, a typical chartered bank mortgage rate on a five-year mortgage varied from 11.75 to 12.75%; in 1971, the conventional mortgage rate had been in the neighbourhood of 9%. This increase of approximately 3% in the mortgage rate led to a dramatic increase in the cost of purchasing a house. A 1985 government paper pointed out the link between mortgage rates and house purchase:

Between 1971 and 1981, when average mortgage interest rates and average house prices rose dramatically, the percentage of renters of primary home-buying age (25-44 years) able to afford the average-priced house was cut from 50% to just 7%.

Since the peaking of interest rates in 1981, however, the average house price in Canada has risen only slightly and interest rates have declined. As a result, 28% of renters in 1983 could afford to buy the average-priced house.⁽¹⁴⁾

(14) Government of Canada, *Consultation Paper on Housing*, January 1985, Appendix I, p. 15.

Table 6

Percentage of Renters of Primary Home-Buying Age (25-44 Years Old)
Able to Afford the Average-Priced House, Canada, 1971-1983

1971	50.2
1975	17.2
1981	6.7
1983	26.4

Source: Government of Canada, *Consultation Paper on Housing*, January 1985, Appendix I, p. 15.

According to CMHC, the percentage of renters able to afford an average-priced house without paying more than 30% of their gross income on shelter declines from 23.1% to 16.6% with a rise in interest rates from 10% to 12%.

The Royal Bank has recently developed an affordability index showing the proportion of median pre-tax household income required to service the cost of mortgage payments, property taxes and utilities on a detached bungalow. This index, based on a 25% downpayment and a 25-year mortgage loan at a five-year fixed rate, is estimated on a quarterly basis for each province and for the Montreal, Toronto and Vancouver Metropolitan Areas.

Table 7

Housing Affordability Index
Selected Cities

Year	Toronto	Montreal	Vancouver
1981	64.6%	49.0%	84.0%
1986	44.0%	37.0%	44.2%
1989	74.5%	47.0%	65.0%
1992	40.8%	36.3%	58.2%

Clearly, affordability is extremely sensitive to interest rates.

The discussion to this point has focused on homeowners, but for many home ownership is not even remotely an option. What is the state of the rental market? In 1972, apartments made up almost half of total housing starts in Canada; by 1988, their share was approximately one-third. The percentage of renters who are spending more than 30% of their income on shelter has, on the other hand, been increasing. In 1982, it was 22.6%; by 1985, it had risen to 27.8%.

Problems of affordability can clearly be alleviated through some types of income transfer or some form of rent supplement. There are other policies, however, largely in the domain of the provinces and municipalities which significantly affect housing costs. Ontario, for example, now requires municipalities: to maintain a 10-year supply of residential land for future use; to reduce the time to process residential applications; and to establish policies to enable at least 25% of new residential units (resulting from development and intensification) to be "affordable" (where affordability means accessible to income of up to the 60th percentile of the housing region). In response, an alliance of builders has argued that this policy is unfair to the province as a whole since the Toronto housing region is really the problem. This group suggests: removal of unnecessary restrictions, unauthorized land dedication and excessive levies from municipal planning and development approval processes, and elimination of disincentives to the production of rental housing by the private sector.

In the United States, state governments have encouraged the supply of affordable housing through innovative land use planning; for example, performance zoning where development standards specify a minimum or maximum limit on the effect of a use. CMHC and the provincial housing agencies have been studying these innovative approaches to see whether they would provide benefits in the Canadian context.

SUMMARY

The federal government has put forward no new major legislative housing initiatives for many years. There was the Nielsen Task Force and the consultation process undertaken by the government in 1985. Given the current emphasis on deficit reduction, however, it is unlikely that the federal government will make housing a focal point of new

activity. The emphasis for now is on efficient delivery of existing services, and encouragement of private sector involvement through such programs as mortgage-backed securities. In the area of social housing, new arrangements for the delivery and financing of these programs have been negotiated with nine provinces and the two territories. Provincial responsibilities have been considerably increased, but not provincial resources. Appendix I outlines the 1988 level of federal activities related to housing. In 1990, the Expenditure Control Plan of the federal government cut back the planned growth in funding for new social housing commitments by 15% in 1990-91 and 1991-92. This restraint was extended through 1995-96 in the February 1991 budget. Then, as part of greater program restraint, the 1992 budget imposed a 3% annual growth rate on commitments for new social housing from 1992-93 to 1996-97. The effect of this restraint is a reduction of \$622 million in funds for social housing over five years. In addition, the Co-operative Housing Program was terminated immediately, cutting back an additional \$25 million from the housing sector; the government will continue to support the 14,000 housing units already built under this program. Clearly the federal government devotes considerable funds to the housing sector but most of these expenditures are the result of past commitments.

The most notable recent policy initiative that affected the housing sector was the general sales tax (GST). Basically, the GST applies to all new housing constructed in 1991 or later, and to the cost of renovations or repairs. The federal sales tax, which the GST replaced, applied to inputs in the construction of housing and was equivalent to a 4% rate on the price of an average new house. The government intended that the vast majority of new houses would have an effective tax rate of 4.5%. (As the price of the house rises beyond \$350,000, the effective tax rate will rise gradually until it reaches 7% for houses valued at \$450,000 and up.) Residential rents are tax-exempt, but materials and services used to maintain a rental building are subject to the GST.

Finally, the federal government has frequently used the housing market in recessionary times to provide a stimulus to the economy. Most recently, the February 1992 budget introduced a special Home Buyers' Plan. It allowed people to dip into their RRSPs to buy or build a home. Up to \$20,000 of existing funds could be withdrawn for a downpayment on a home, with no tax penalty incurred on the withdrawal. The funds were to be paid back to

the RRSP in equal instalments over a 15-year period. The plan was initially to be available until 1 March 1993 but was subsequently extended to 1 March 1994. As of December 1992, more than 130,000 people had taken advantage of this program.

Also announced in February 1992 was a temporary measure halving the required downpayment on federally insured mortgages for first-time homebuyers to 5%. This program was to run for two years and was subject to a number of restrictions. The maximum-house price is \$250,000 in Toronto and Vancouver - \$75 to \$125,000 less in other areas. No more than 35% of gross family income can be spent on the carrying cost of the mortgage, property tax and heating; a buyer's total debt load cannot exceed 42% of family income. The effect of this program will be very hard to estimate since Canadians were already re-entering the housing market in significant numbers before the announcement was made.

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APPENDIX I

CURRENT FEDERAL HOUSING POLICY (Major Programs)

Overall objective under the *National Housing Act* (NHA):

"to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions."

Program activity in 1988:

A. Market-oriented policies		\$76.6 million
(i)	mortgage loan insurance	: total insured units - 148,301 : currently has an actuarial surplus for the first time in 10 years (expected surplus of 10 to 20 million based on assets of \$728 million)
(ii)	NHA mortgage-backed securities	volume for the year was 95 issues, totalling \$773.2 million
(iii)	Federal Co-operative Housing (subsidies and CMHC-insured, index-linked mortgages)	\$7.1 million committed for 3,060 units in 197 projects
(iv)	Other Programs including Assisted Rental Program and Canada Rental Supply Plan, Mortgage Rate Protection Program	
B. Social housing		\$1.3 billion
(a) New Commitments		
(i)	non-profit housing (subsidies)	9,807 units (757 designated for special purpose projects for elderly, disabled)
(ii)	rent supplement (subsidies)	4,202 units
(iii)	urban native non-profit housing (subsidies)	1,096 units

(iv)	on-reserve non-profit housing (loans to Indians on reserves)	1,165 units
(v)	rural and native housing (subsidies)	1,818 units
(vi)	residential rehabilitation assistance program (loans, part may be forgivable)	\$171.6 million 33,069 dwellings and hostel beds
(vii)	emergency repair program	\$2.2 million 1,102 units
(viii)	project haven	over next 4 years will assist development and production of up to 500 new hostel rooms across country for victims of family violence

(b) Administration of Prior Commitments

(i)	portfolio management	CMHC administers almost 600,000 assisted units including: (a) 248,201 public housing units involving \$503.9 million; (b) approximately 400,000 units of non-profit and co-operative housing delivered by CMHC prior to 1986 involving \$584.8 million
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C. Housing support \$11.8 million

(i)	land assembly	: since 1978 no new land acquired
	(a) federal-provincial partnership	: approximately 2,681 hectares of land owned : \$14.7 million committed to developing and and marketing lands for disposal
	(b) CMHC holdings	: CMHC owns 486 hectares (Quebec City, Montreal, Revelstoke, B.C., and NCR) : \$4.1 million committed to for development and disposal
(ii)	Municipal Infrastructure, Neighbourhood Improvement and Renewal (administers loans made to municipalities in previous years)	: portfolio valued at \$1,038.9 million, generated \$98.7 million

In addition to CMHC-administered programs, the federal government influences the housing market in other ways. Most notable are incentives encouraging home ownership, the non-taxation of capital gains on homes and imputed income on equity in an owner-occupied house (imputed rent). The Nielsen Task Force reports estimates of the latter ranging from \$3.7 billion (1979) to \$1.12 billion (1975) to \$394 million (1980); estimates of the former range from \$2.5 billion (1979) to \$1.98 billion (1975) to \$890 million (1971).

APPENDIX II

METHODOLOGY OF CCSD TO GENERATE USE OF SHELTERS ON 22 JANUARY 1987

- ASSUMPTIONS: (i) total capacity of temporary and emergency shelter system is 13,797 spaces
- (ii) occupancy rate of shelters providing data, 77%, applies to all other shelters

IMPLICATION: total people housed on 22 January 1987 was 10,672 ($13,797 \times .77$)

METHODOLOGY OF CCSD TO GENERATE MAGNITUDE OF HOMELESSNESS

- Data: 153 of the 283 shelters providing one night shelter use also provided data on shelter use for 1986:
- 124 sheltered 102,819 different people
 - 29 provided 548,567 bed days
- Calculation: using nightly capacity and number served in 1986, CCSD determined that the average number of people sheltered over year was 18.8 times nightly capacity
- Assumption: 18.8 applies to all beds
- Implication drawn: $18.8 \times 13,797 = 259,384$ different individuals spent at least one night in a shelter in 1986
- Modification: An individual could have used more than one shelter over the course of the year. If every person used two shelters, the number of people homeless drops to 129,692.
- Conclusion: "Since the options available to the homeless are few, and since many homeless people do not use shelters, an estimated range of 130,000 to 250,000 homeless people during the year remains conservative."
- (drawn by study)

No information was provided on the survey methodology, on the characteristics of the shelters that responded to the question about 22 January 1987, or about those that responded to other questions. It is not possible, therefore, to draw any inferences about statistical validity. Further, the immediately foregoing "modification" and "conclusion" are pure conjecture. No logical basis is provided for either.

APPENDIX III

PRICE INDICES AND HOUSE VALUES,
1969-1989

Year	Price Indices: 1981 = 100				Median Value: Current Dollars		
	All Items	Housing	Rented Accom- modation	Owned Accom- modation	New Housing	Existing Housing	Urban Family Income
					\$	\$	\$
1969	39.7	40.3	60.3	33.7	(a)	(a)	(b)
1970	41.0	42.3	62.4	36.7	20,451	16,877	
1971	42.2	44.2	63.5	39.6	21,480	18,466	10,423
1972	44.2	46.2	64.4	42.8	22,993	19,290	11,476
1973	47.6	49.2	65.5	47.1	25,300	22,173	11,565
1974	52.8	53.5	67.5	51.6	26,496	27,729	14,633
1975	58.5	58.9	71.1	56.9	30,950	34,973	16,244
1976	62.9	65.4	76.2	64.7	35,428	40,306	18,460
1977	67.9	71.5	81.1	71.8	38,361	43,237	19,901
1978	73.9	76.9	85.4	77.7	41,911	43,183	21,891
1979	80.7	82.3	89.3	82.5	49,878	46,678	23,607
1980	88.9	89.0	93.8	88.7	56,469	45,741	27,072
1981	100.0	100.0	100.0	100.0	58,353	45,330	30,399
1982	110.8	112.5	109.0	113.6	59,954	47,306	32,417
1983	117.2	120.2	117.1	121.0	64,653	53,175	33,966
1984	122.3	124.7	123.0	124.5	69,302	54,627	34,809
1985	127.2	129.0	128.2	128.1	75,998	57,260	37,215
1986	132.5	132.9	133.4	132.9	78,495	61,350	39,648
1987	138.2	138.3	138.2	141.2	87,280	67,985	42,114
1988	143.8	144.3	143.7	149.0	96,342	73,620	45,170
1989	151.0	151.9	151.0	160.3	97,873	78,725	47,822
							Trend

(a) NHA loans only.

(b) Metropolitan areas, population over 100,000.

Source: Statistics Canada, CANSIM Division and Canada Mortgage and Housing Corporation.



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